JOBS SERIES #1: ENTERPRISE COMPETITIVENESS

TECHNICAL GUIDE

Asia and the Middle East Economic Growth Best Practices (AMEG) Project
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ACRONYMS

AMEG	USAID Asia Middle East Economic Growth program
BRCP	Tunisia Business Reform and Competitiveness Program
ECP	Enterprise competitiveness program
ESC	economic service center
FTE	Full time equivalent
GDP	Gross domestic product
M&E	monitoring and evaluation
MENA	Middle East and North Africa
PRA	Poverty Reduction and Alleviation program in Peru
SME	small- and medium-size enterprise
SOW	scope of work
USAID	U.S. Agency for International Development

EXECUTIVE SUMMARY

The Arab Spring, sparked in 2011 by frustration and impatience with limited economic opportunities, has yet to deliver the jobs and improved livelihoods so many had hoped for. Less than one-half of the working-age population in the Middle East and North Africa (MENA) is employed or in school. Although MENA's youth is relatively well educated, the region has the highest youth unemployment rate in the world (28 percent), and the share of women in the workforce is lower than any other region. Demographic trends compound labor market challenges: since 2003, the region's labor force has grown at a rate faster than in any other region. MENA's emerging countries experienced only 1.2 percent GDP growth in 2014, which is insufficient to reduce unemployment rates or inequality significantly. Violent extremist groups are proactively trying to undermine this already tenuous situation.

The existence of a jobs crisis in MENA is well documented. The question is can USAID improve employment outcomes in the region and, if so, what is the most cost-effective method of doing so? MENA countries possess complex, dynamic economies where firms face a variety of constraints to enterprise growth, increased competitiveness, and job creation. While improvements to the business environment can support these objectives, the political environment is not always conducive to meaningful change and it can take years to fully implement significant policy reforms. In addition, more often than not, enterprises' most significant growth constraints are firm-specific and, as such, they require tailored solutions to take advantage of existing markets and reach new ones. Yet donors shy away from firm-level enterprise competitiveness assistance — often due to a perception that the cost and effort required to tailor solutions to individual firms is not a cost effective use of resources.

Objective of this research. To help address the jobs crisis and support USAID's increased emphasis on evidence-based decision making, the Asia and Middle East Economic Growth Best Practices program (AMEG) researched the most cost-effective approaches to job creation and developed this Enterprise Competitiveness Technical Guide to synthesize features of the most successful and impactful programs. AMEG's research indicates that Enterprise Competitiveness Programs (ECPs), when implemented using the best practices in this guide, can have a direct and cost-effective impact on job creation. In Tunisia, the USAID Business Reform and Competitiveness Program (BRCP) helped create 3,694 jobs in its first year at a cost per job of $1,207. While the research team found BRCP's impact impressive, USAID has used similar approaches successfully in at least 15 countries; these countries span many different regions, cultures, and stages of economic development. In addition, AMEG was unable to find another type of economic growth program that (1)

Cost Effectiveness and an ECP

AMEG's research indicates that cost effectiveness, i.e., *cost per job*, tends to increase 1) the longer the ECP's lifespan, 2) when the ECP business advisors work close to their clients and build trust with them through frequent interaction, and 3) when a large percentage of clients are agriculture-related (a labor-intensive industry).

demonstrated similar cost-effectiveness in creating jobs and (2) could show the jobs it created were attributable directly to program activities.[1]

Distinguishing features of the ECP design. What makes some ECPs so successful? As with any development program, it is a combination of program design and execution. A well-designed ECP focuses on results more than on inputs and activities and recognizes the heterogeneity of firms' most significant growth constraints; the best ECPs do not come with pre-packaged solutions in search of problems, but rather they attempt to find out what each client's principal problem is, and then find creative solutions to attack it. In doing so, the programs tailor themselves to real market opportunities and attack specific constraints preventing firms from meeting the needs of buyers. By helping remove those constraints, ECPs have a direct impact on investment, enterprise growth (sales), and job creation.

Key traits of the most effective ECPs. While a well-designed ECP can put it on track for success, good management is essential. Common traits of the best ECPs include:

- **Assistance that meets the needs of specific buyers.** The best ECPs are truly "demand-driven." They help client firms increase production only after verifying that somebody is able and willing to buy that production. They then help clients produce specifically to the buyer's requirements. In other words, they start with the buyer and work backwards, not the other way around.
- **Disciplined selection of client firms.** The best ECPs adhere to a disciplined selection approach to ensure assistance is cost-effective. BRCP works only with client firms that they expect to create jobs at a direct (that is, not counting fixed costs and overhead) cost to the program of no more than $500 USD per job. Other programs have adhered to the so-called 5 to 1 rule, that is, they support client enterprises only when they expect client sales to increase by at least five times the direct cost of the program's assistance.
- **Personnel and management structure designed to build trust.** Ultimately, the success of any ECP hinges on its ability to build trust with client enterprises. That in turn depends on the ECP hiring good business advisors and then making it clear it expects those advisors to spend lots of face time with their clients.
- **Robust M&E systems integrated into all aspects of program implementation.** ECPs attach a high premium to sound monitoring and evaluation (M&E). This allows USAID to hold implementing partners accountable for results and chiefs of party to hold their teams accountable. The best ECPs monitor for results: their veracity (does the job actually exist?), their causality (is the job a direct result of ECP activities?), and their additionality (would the job have been created in the absence of the ECP?).
- **Gender, youth, and environmental concerns integrated to achieve real impact.** The best ECPs take concern for gender equality seriously, mainstreaming it into operations both through the business advisors they hire and by setting targets for the number of women-owned firms that receive assistance and the number of women who obtain jobs. Although

[1] If such programs exist, particularly in MENA, AMEG would like to hear about them.

most ECPs do not set targets for youth employment, it is youth who take advantage of the bulk of jobs created. In the same vein, good ECPs not only mitigate potentially negative environmental impacts but look actively for environmentally friendly businesses to support.

Market failures and the development logic of ECPs. While conducting our research, skeptics often asked, "what is preventing firms from addressing their binding constraints and generating new sales on their own?" There are several common types of market failure that impede high-potential businesses from creating jobs without USAID assistance. For example, distrust between suppliers and buyers, especially in countries with weak rule of law and contract enforcement mechanisms, often prevents firms from investing in new commercial relationships and expanding their operations. In these cases, ECPs can serve as a neutral third party that builds trust and facilitates profit-driven, sustainable business relationships along value chains. Another example of a common market failure: family-run firms with limited commercial exposure tend to be suspicious of "outsiders" and are reluctant to entertain offers of external assistance, even if that assistance is needed to address binding constraints, increase sales, and create new jobs.

ECPs complement other types of USAID assistance. While ECPs offer many attractive features, it would be a mistake to ignore all other interventions, such as education, workforce development, and policy reform (see box). ECPs can help amplify the impact of these approaches, particularly when they are integrated into a single program. For example, ECPs can leverage their one-on-one, trusting relationships with business owners to facilitate more effective communication between higher education institutions and employers and to improve the market-relevancy of curricula. ECPs can also address a historic culture of distrust in MENA between job seekers and private-sector employers, while helping youth better understand private-sector opportunities and demands and helping businesses to upgrade their human resources to train and retain new hires.

ECPs' Critical Feedback Loop

By working with large numbers of private-sector companies, ECPs are able to collect valuable business intelligence about all of the impediments (including policy and institutional impediments) preventing them from increasing sales and creating jobs. This information is a valuable ingredient for policy and institutional reform programs, and can be used to point policy makers and advocates to the issues that are of most importance to the business community.

Conclusions. AMEG's research suggests that USAID can have a direct and cost-effective impact on private-sector job creation in MENA; ECPs in MENA and across the globe have proven that we know how to help firms increase sales and create jobs in a variety of contexts. However, the success of BRCP and many other ECPs did not come easily or without hiccups; these results required hard work, creative thinking, and discipline at every stage of design and implementation. The best practices in this guide present an ECP approach that maximizes cost-effectiveness by promoting accountability, aligning incentives for optimal performance, and, ultimately, helping create jobs that are directly attributable to USAID assistance. Examples of companies creating jobs as a result of BRCP support (see the next page) show how this model can help address the jobs crisis plaguing MENA today and create new employment opportunities that make a meaningful difference in people's lives.

EXAMPLES OF THE BUYER-LED APPROACH IN ACTION USAID Business Reform and Competitiveness Program in Tunisia					
Client name	GECOTRAP	IBL	MAG-TEX	MSPE	Plast-Tech
Location	Tunis	Bizerte	Gafsa	Moknine	Zaghouan
Type of business	Agribusiness, specializing in food flavorings & additives	Electronics for automobiles	Textile & garment manufacturing & finishing	Manufacturing of wiring harnesses for automobiles	Technical plastics manufacturing
Binding constraint	Carrefour & other foreign buyers would buy from GECOTRAP, but only if it improved its food quality standards & obtained food quality & safety certifications.	New customers in Germany, France, & Switzerland would buy from IBL, but only if it complied with stringent requirements, including for enameled electric wire welding.	Benneton, a global fashion brand, committed to increasing orders by 55 percent. But MAG-TEX could not sell that much unless it improved production management & quality control.	Main customer would buy more from MSPE, but only if it reduced response time from 72 to 48 hours & improved delivery time performance from 90 to 98 percent.	PLAST-TECH could become regular supplier of new significant buyer only if it implemented world-class automotive quality standards.
Solution	BRCP helped GECOTRAP establish certified quality management system ISO-9001 & ISO-22000.	BRCP helped IBL meet Integrated Printed Circuit global standards.	BRCP helped MAG-TEX establish management information system & implement improved quality standards, work procedures, & dashboard system.	BRCP helped MSPE develop & use new Enterprise Resources Planning module (Electronic Data Interchange).	BRCP helped PLAST-TECH implement ISO/TS 16949 v 2009 standards.
New jobs created	25	70	40	58	25
Take-away lessons	**"Demand-driven" is not just a mantra. Specific demands – orders – drive sales growth.**				
	As a rule, increases in sales drive increases in jobs.				
	One size does not fit all: clients' binding constraints vary significantly by firm, even within a sector.				
	You don't have to help a client improve everything: focus on the binding constraint(s).				

INTRODUCTION

A. OBJECTIVE OF THIS TECHNICAL GUIDE

This Enterprise Competitiveness Technical Guide is the first in a series of technical guides researched and published by the USAID Asia and Middle East Economic Growth Best Practices program (AMEG). These technical guides focus on approaches to improving employment outcomes in the Middle East and North Africa (MENA) by creating jobs, offering vocational skills training, matching the unemployed with employers, and boosting household incomes. The guides have two primary objectives: (1) evaluate the cost effectiveness of the most successful approaches — i.e., those with the lowest *cost per job* — in MENA or in countries with comparable contexts and (2) provide practical guides to help USAID and its partners design, adapt, and implement the most impactful approaches to job creation across MENA. Ultimately, these guides aim to help USAID and the U.S. Government design programs that maximize impact on employment outcomes with as few resources as possible.

USAID has dozens of strategies and guidance documents, including many that are related to economic growth programming — the Youth in Development Strategy, the Economic Growth Strategy, etc. Many of these strategy documents overlap, to varying degrees, with the content and recommendations laid out in this technical guide. AMEG's research is neither meant to align with nor contradict these strategy documents. Instead, this technical guide responds to the enormity and urgency of the jobs crisis in MENA by focusing on approaches that USAID can use to have a direct, measurable, and sustainable impact on employment outcomes over a relatively short time horizon.[2] Unlike most USAID strategy documents, the Enterprise Competitiveness Technical Guide goes beyond high-level guidance for USAID and presents practical resources for designing, planning, and implementing an ECP in the most cost-effective manner possible.

B. ABOUT AMEG

The AMEG project is designed to support USAID missions in developing effective and efficient economic growth programs that address technical and strategic challenges that are specific to countries in which USAID operates in Asia and the Middle East. Through AMEG, USAID is able to conduct rapid and strategic economic growth assessments, pilot innovative approaches in economic growth programming, and consolidate and disseminate best practices in economic growth projects learned from USAID implementation throughout the world.

[2] Although AMEG only looked at programs that could generate jobs over a relatively short-term time horizon (three to five years), it is worth noting that the research team did not find approaches that are more successful over a longer time horizon.

C. ORGANIZATION OF REPORT

Section A of this technical guide begins with an overview of enterprise competitiveness programs, including some examples of USAID programs, a theory of change, an economic rationale for this approach, a discussion of the advantages of Enterprise Competitiveness Programs (ECPs), and a discussion of how ECPs can complement and bolster other types of USAID assistance. The remaining sections provide practical advice for planning and implementing an ECP. Section B focuses on planning, procurement, and project launch. Section C focuses on the nuts and bolts of implementation. Section D reviews best practices for monitoring and evaluation (M&E) of ECPs. Finally, Section E presents important considerations for replicating and adapting ECPs in other MENA countries.

In Annex A, the reader can find a model scope of work to help USAID think through how they would design an ECP that reflects the recommendations outlined throughout this guide. Annex B is a diagnostic checklist that aims to help USAID determine whether their country is appropriate for an ECP and whether their team is committed to the philosophy of a demand-driven ECP. Annex C includes a check-list for evaluating firms for potential ECP assistance and Annex D is a bibliography of sources consulted while preparing this technical guide.

D. ASSESSMENT TEAM AND ACKNOWLEDGEMENTS

AMEG developed the Enterprise Competitiveness Technical Guide under the leadership of Bill Baldridge, USAID Middle East Bureau Economic Growth Director. Dr. Jim Riordan, senior competitiveness expert, and Isaiah Oliver, AMEG deputy chief of party, are the principal authors of the technical guide. The team would like to thank Jeffrey Levine and Denise Lamaute of USAID's Middle East Bureau, for their extensive guidance, support, and input into this research. In addition, AMEG would like to thank Paul Davis, Amel Mankai, Iskander Ben Mustapha, and the entire USAID Tunisia Business Reform and Competitiveness Program (BRCP) team for their openness and transparency in AMEG's field assessment.

TECHNICAL GUIDE

USAID, and its Middle East Bureau in particular, is interested in exploring approaches to sustainable job creation in high-unemployment countries. This Enterprise Competitiveness Technical Guide is the first in a series researched and published by the USAID Asia and Middle East Economic Growth Best Practices program (AMEG). These technical guides focus on approaches to improving employment outcomes in the Middle East and North Africa (MENA) region by creating jobs, matching the unemployed with employers, and boosting household incomes. The guides have two primary objectives: (a) identify the most cost-effective approaches — i.e., those with the lowest *cost per job* — in MENA or in countries with comparable contexts and (b) provide practical guides to help USAID and its partners design, adapt, and implement the most impactful and cost-effective approaches to job creation across MENA.

A. IMPORTANCE AND ROLE OF ENTERPRISE COMPETITIVENESS

A1. AN INTRODUCTION TO ENTERPRISE COMPETITIVENESS

ECPs provide direct assistance to private-sector companies to help them address binding constraints to growth and increase their competitiveness — leading to increased sales and new employment. The most successful ECPs tend to be those that focus on firm-specific opportunities to identify new buyers and address constraints preventing companies from consummating deals with those buyers. These ECPs maintain as much flexibility as possible to capitalize on opportunities that may arise and hold themselves accountable for measureable results directly attributable to program activities. Examples of highly successful ECPs that inform this guide include:

- **Tunisia Business Reform and Competitiveness Program (BRCP).** BRCP is a three-year, USAID-funded program that provides problem-solving assistance — directly and through Tunisian subcontractors — to help client firms increase their competitiveness. In its first year, BRCP provided tailored assistance to 100 enterprises resulting in 3,694 jobs, spending $1207 of program funds per job created.

- **Endeavor Jordan.** Endeavor is a privately funded nonprofit organization based in New York with offices in 21 countries, including six in the MENA region, that identifies and supports small- and medium-size enterprises (SMEs), regardless of sector, that can scale into large companies with the right selection of resources.

- **More than a dozen buyer-led programs implemented in other parts of the world.** In his book, *We Do Know How: A Buyer-led Approach to Creating Jobs for the Poor* (New Academia, 2011), Jim Riordan examines best practices and lessons learned in ECPs in approximately 15 countries across the world, including Azerbaijan, Kosovo, Nigeria, and Peru. In *We Do Know How*, Dr. Riordan presents the "buyer-led approach" to enterprise competitiveness, which has many similarities to Tunisia BRCP. The first program to use the full-blown buyer-led approach was the Poverty Reduction and Alleviation (PRA) program in Peru. PRA established economic service centers (ESCs) in 11 economic corridors with high rates of poverty. Through the ESCs, PRA linked individual enterprises in various sectors with demand in intermediate cities and markets beyond. In total, PRA helped create more than 80,000 jobs, at a cost of $516 per job.

A2. THEORY OF CHANGE, MARKET FAILURES, AND RESULTS FRAMEWORKS

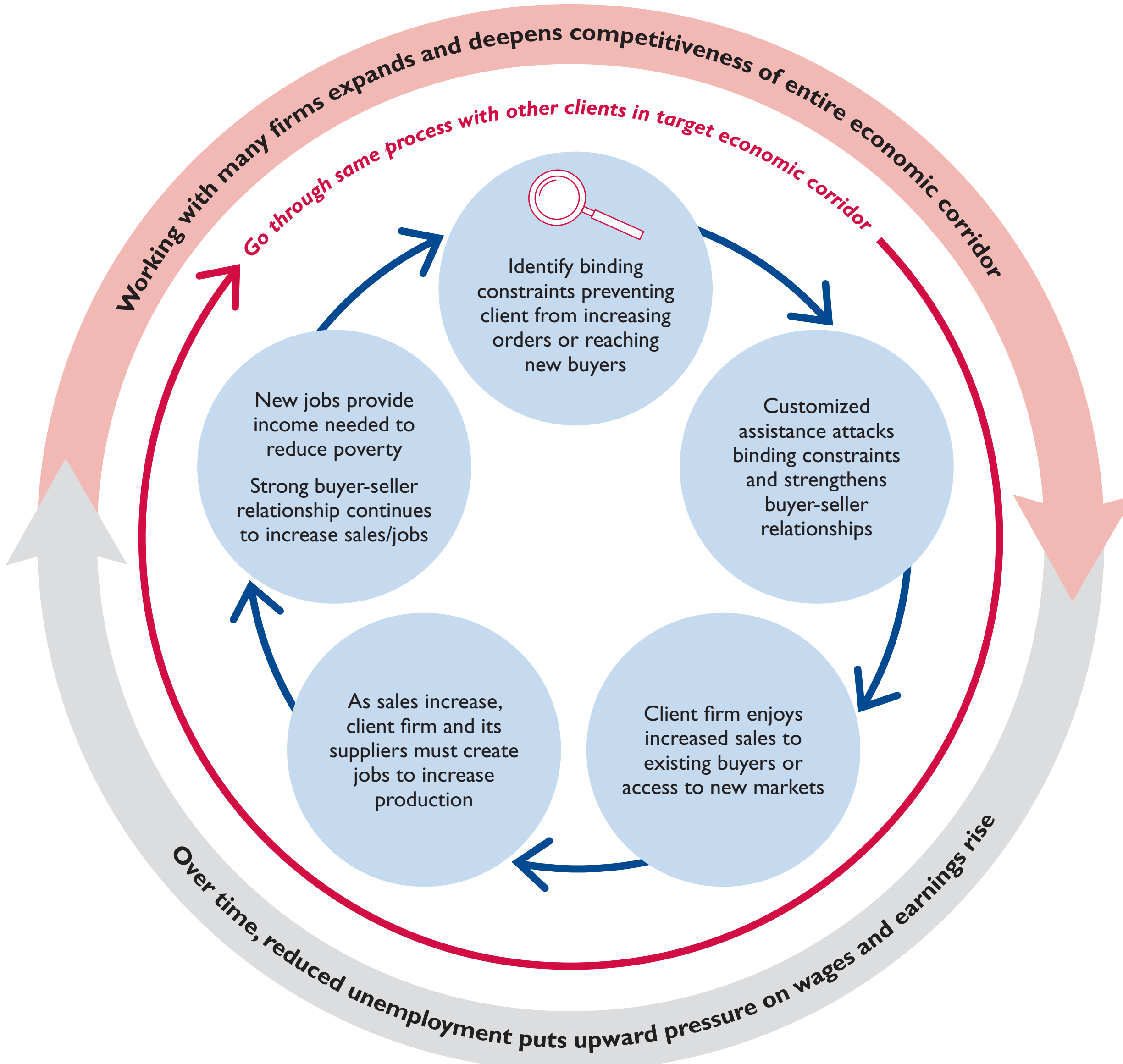
Theory of change. To reduce poverty and raise living standards permanently, jobs must increase. For jobs to increase, business activity must expand. For business activity to expand, sales must grow. For businesses to increase sales, firms must address the binding constraints preventing them from selling to new buyers or expanding orders with existing buyers. Based on AMEG's research, the most cost-effective ECPs customize their assistance to attack these firm-specific constraints, resulting in a direct impact on firms' sales and employment generation. As firms grow, ECPs can leverage these successes to influence other enterprises and, where appropriate, sector associations/organizations. As more and more firms in a geographic corridor attack their binding constraints and sell more, the competitiveness of the whole corridor increases. Over time, increased productivity and reduced unemployment put upward pressure on wages and earnings. Exhibit 1 on the next page graphically depicts this causal logic.

Although many international development experts would like to focus on sector-wide problems, the binding constraints preventing sales and employment growth are more often than not unique to individual firms — even within the same sector in the same country. Heterogeneity, not uniformity, is the touchstone here. To attack the constraints that actually matter, development practitioners must zoom in on specifics.

Economic theory underlying the enterprise competitiveness approach. At this point, understandably, one might ask, "Why should the U.S. government address the binding constraints at the enterprise-level? If firms can increase sales, shouldn't they be able to find private sector solutions to address those constraints?" It is a fair question. In reality, there are several market failures, shown below in Exhibit 2, that typically prevent firms from addressing their binding constraints and generating new sales on their own.

Exhibit 2. Common Market Failures Addressed by ECPs
Market Constraints
Identifying buyers. Business owners often do not know where to find buyers, particularly in international markets, and how to communicate effectively with those buyers.
Understanding market demand. Without strong buyer-seller relationships, there is a weak feedback loop for business owners to know specifically what the market demands.
Lack of trust forward or backward in the value chain. Distrust of suppliers and buyers, especially in countries with weak rule of law and contract enforcement mechanisms, affects firms' willingness to invest in new commercial relationships and expand.

Exhibit 1. The Enterprise Competitiveness Program's Causal Logic and Theory of Change



Management Constraints
Understanding how to address the binding constraints to firm growth. When firms can identify opportunities, they often lack expertise needed to address the binding constraints preventing them from reaching new markets. *Lack of information about where to find assistance.* Firms often lack information about where to find the assistance needed to address their binding constraints. *Aversion to acquiring outside assistance.* Firms, especially family-run firms with limited commercial exposure, tend to be suspicious of "outsiders" and are reluctant to entertain offers of external assistance.
Financial Constraints
Lack of knowledge of how to access financial resources needed to expand sales. In MENA, as in many parts of the world, companies often say that a lack of financial resources is their primary constraint to growth. ECPs often find that financing is not the primary growth impediment but, in some instances, it is a major constraint to making necessary investments to expand business. In many instances, firms do not know how to look for and secure financial assistance.

ECPs can play a facilitative role in addressing these market failures — as an intermediary to build trust between supply chain participants; as a match-maker, linking companies with domestic and international buyers; and as a vehicle for "nudging" risk-averse business owners into taking actions they would not otherwise take.

Sustainability. ECPs focus on the sustainability of buyer-seller relationships, not whether support organizations last beyond the life of the program.

- **Sustainable buyer-seller relationships – evolving with the market.** By facilitating relationships between client firms and their buyers, ECPs help build trust, as well as attitudes and skills to evolve with changing end-market demand/preferences.
- **Supply chain linkages with a sustainable profit incentive.** For strong and sustainable relationships to develop between firms and their suppliers there must be an enduring profit incentive for the various parties to share information and know-how. The best ECPs start with a specific buyer and work through supply chains to strengthen supplier capacity. In many programs, large firms provide capacity building to SMEs down the supply chain.
- **Openness to outside assistance.** By focusing on cost effectiveness, many ECPs use local consultants and consulting firms (less expensive than international alternatives) to help client firms remove the constraints that stand in the way of increasing sales and jobs. There is no guarantee that client firms will be willing to pay for those services in the future. But as firms become more exposed to outside assistance and the capacity of business development service providers grows, firms' appreciation of the value of that assistance typically grows as well.

A3. BENEFITS TO MENA AND PROGRAMMATIC ADVANTAGE

At the end of the day, poor people need to see a tangible improvement in their lives. That is certainly true in the MENA region. ECPs focus on increasing sales and jobs to generate more income. These are short-term, direct impacts. Specific reasons for USAID to use ECPs to address employment challenges in MENA are discussed below.

Cost effectiveness. In one year, using a conservative calculation, Tunisia BRCP helped create 3,694 jobs at a cost per job of $1,207. Not only is this cost effectiveness calculation impressive, the 3,694 jobs are *jobs created* — a better outcome than *jobs placed*[3] — and are also directly attributable to BRCP activities. BRCP achieved this success in Year 1, during which multiple months were dedicated to program start-up and launch. Experience from other ECPs suggests that program cost effectiveness increases the longer a project runs and, therefore, BRCP can expect to see an increase in cost effectiveness as time goes on.

Programs in other countries have also yielded impressive results (see Exhibit 3, below).

Exhibit 3. Comparing Cost Effectiveness of ECPs in Generating Employment

The AMEG research team compared BRCP's impact with that of seven other ECPs analyzed in a 2011 research paper titled, "Determinants of the Cost-Effectiveness of Business Approaches to International Development in Generating Employment: A Cross-Country Analysis."

Paraguay Vende: $224 per job

Nigeria MARKETS: $515 per job

Peru Poverty Reduction and Alleviation Project (PRA): $516 per job

Azerbaijan Business Assistance and Development (ABAD): $590 per job

Tunisia BRCP: $1,207 per job

Bolivia Rural Competitiveness Activity (RCA): $2,799 per job

Kosovo Cluster and Business Support Project (KCBS): $3,026 per job

Armenia Micro Enterprise Development Initiative (MEDI): $3,161 per job

Through this analysis, AMEG found that agriculture-focused ECPs tend to be more cost-effective in generating employment than programs that supported primarily non-agricultural pursuits. Otherwise, no clear correlation appears to exist between the cost effectiveness of an ECP and a country's average wage rate, exports per GDP, or other likely variables.

Direct causal link with increased jobs. Unlike other approaches, ECPs provide assistance that addresses the binding constraints preventing individual firms from identifying new buyers and fulfilling new orders. By helping remove those constraints, ECPs have a direct impact on investment, enterprise growth (sales), and job creation.

Quick mobilization and focus of limited resources on assistance, not studies. ECPs can be designed and launched quickly, assisting firms within a few months of the beginning of a project. In doing so, these programs identify specific buyers (market potential) and address the challenges (binding constraints) they face in filling orders. Other private sector development approaches often require months of research and analysis before action is taken and, even then,

[3] In the context of ECPs, a *job created* is the result of increased business activity. If an employee quits, the company will hire someone else for that position. This is more sustainable than *job placements.* A person placed in a job could quit shortly after being matched, eliminating all desired impact.

may wind up picking sectors with limited potential and activities that do good things but fail to attack the idiosyncratic, binding constraints to the growth of individual firms.

Accountability at many levels. ECPs attach a high premium to sound monitoring and evaluation (M&E). That allows USAID to hold its implementing partners accountable for results and chiefs of party to hold their teams accountable for results.

Not a "one-size-fits-all" approach: Solutions are dictated by specific problems and market opportunities. The best ECPs do not come with pre-packaged solutions in search of problems. Instead, they attempt to find out what each client's principal problem is, and then find creative solutions to attack it. In doing so, the programs tailor themselves to real market opportunities and attack specific constraints preventing firms from meeting the needs of buyers. As a result, U.S. government resources are used efficiently and impact is maximized.

A4. RELATIONSHIP TO OTHER TYPES OF USAID PROGRAMMING

The best ECPs work with individual firms to improve their performance and employment outcomes, but that does not mean that ECPs should work in isolation. Conversely, ECPs can leverage their relationships with a large number of companies to serve as a feedback mechanism for other activities or to enhance private-sector involvement in other USAID activities. Specific examples of how ECPs can complement other types of economic growth programming include:

- *Policy and institutional reform*. The best ECPs address the binding constraints preventing growth. If the major constraint is policy, the program dedicates resources to solving the policy problem. In fact, the feedback mechanism provided by direct communication with firms can raise the impact of policy activities by focusing them on the policies that pose the most significant constraints to growth, rather than relying on such indices as the World Bank *Doing Business* rankings. See more in the 5 Myths section below.

- *Workforce development*. ECPs can also shape workforce development activities to reflect real market demand and opportunities. In Tunisia, BRCP has established feedback loops between its network of client businesses and the education system. For instance, BRCP is facilitating dialogue between firms and vocational training institutions to develop new curricula and bring existing curricula in line with labor market needs. The program is also working to increase private-sector involvement in newly created Career Development Centers. These interactions are important for improving the effectiveness of educational institutions, but also to help students understand private-sector needs and opportunities. This is particularly important in MENA, where there is a historical reluctance for youth to value jobs with private businesses (outside a limited number of prestigious professions).

- *Agriculture*. Many ECPs support agriculture sector companies to increase sales and expand employment. By focusing initially on *product* markets (e.g. food processors), rather than input markets (e.g. seed suppliers), ECPs ensure that support for input suppliers does not assume demand, but rather translates itself into products that get sold. As a result, ECPs can facilitate profitable market transactions that are built for long-term sustainability.

5 COMMON MYTHS ABOUT ENTERPRISE COMPETITIVENESS PROGRAMS

Myth #1. Enterprise competitiveness programs achieve piecemeal impact and would achieve greater impact by focusing on whole sectors or value chains (VCs). Many critics argue that ECPs should address only sector-wide constraints for pre-selected priority value chains. The argument is compelling on the surface: By focusing on VCs with "significant growth potential", the program can strengthen several links in the VC to have a catalytic impact on many firms and maximize the cost effectiveness of USAID's investment — the number of jobs created relative to the cost of program activities. Yet there can be drawbacks: For instance, the studies required to select value chains and identify priorities typically are expensive and time-intensive. As a practical matter, activities to support VCs often focus on building capacity of sector members and market demand becomes an afterthought. These capacity building activities frequently fail to get at the binding constraints preventing individual firms from meeting the needs of specific buyers.

Contrary to common criticism, sector-agnostic ECPs are cost-effective for USAID by recognizing two truths: (1) there is significant heterogeneity in the binding constraints preventing enterprise growth, even within sectors; and (2) program activities must address client firms' binding constraints to have a transformative impact on sales and jobs. In the most effective ECPs, USAID incentivizes the program implementer to create the most sales and jobs they can, and then provides the team flexibility to pursue the most attractive opportunities available. Rather than depending on studies, the best ECPs help firms identify specific buyers — leaving no doubt whether assistance is "demand-driven" — and then help them address each of the constraints that prevent them from meeting the demands of buyers. By attacking these constraints directly, ECPs have a causal impact on employment outcomes, generate clearly defined social returns, and maximize the cost effectiveness of USAID programming.

Myth #2. Enterprise competitiveness programs ignore their clients' value chains. Related to Myth #1, some critics think that sector- or value chain-agnostic ECPs ignore the value chains in which they operate and thus have less impact by ignoring capacity deficiencies at several "links" along those chains. Again, the best ECPs attack binding constraints wherever they exist. Those constraints do not necessarily appear on the factory floor, but instead can be forward or backward along the value chain. For example, it could be that a company has a significant export opportunity, but is unable to grow because its suppliers are unable to provide the quantity and/or quality of inputs required to fill new orders. In such cases, ECPs can and should focus on strengthening the company's suppliers.

Myth #3. Enterprise competitiveness programs help wealthy business owners. Another common criticism of ECPs is that they benefit big business owners, who have significant wealth and do not need help. However, the demand for SMEs' goods and services is very often found in big firms (a basic example is a large food processor buying inputs from small farms). Therefore, if you take a truly demand-driven approach, you have no operational choice but to work with well endowed companies at times. An additional compelling reason good ECPs work with wealthier businesses is that they are typically the best channel to assist a development program's target population. For an established, wealthier business to make money, the inputs produced on the factory floor, or elsewhere, must meet certain standards. The most

5 COMMON MYTHS ABOUT ENTERPRISE COMPETITIVENESS PROGRAMS

enlightened companies guarantee input quality by training workers or suppliers themselves. In fact, why would a project not work with a large company that (1) is willing to train its workers and suppliers and (2) has a clear incentive to make sure the training is successful?

Myth #4. Enterprise competitiveness programs do not and cannot focus on policy reform. Private firms in the developing world often face a variety of constraints that prevent them from growing their businesses and creating jobs. Most often firms can attack those constraints transactionally as business problems. At times, though, the constraints include poorly designed and implemented policies. When that is the case, there is no reason ECPs should not try to attack them. In fact, ECPs are uniquely situated to identify what policies are binding and to mobilize firms to advocate for necessary changes. Why? Because the policies attacked by ECPs are rooted in intelligence from and commitment by the business community. Unfortunately, other USAID programs lack the feedback mechanisms to know which policies (if any) are actually a significant impediment to sales and job growth.

Myth #5. Enterprise competitiveness programs inflate the number of jobs they create in an effort to show how wonderful they are. The final myth comes from people who are skeptical of the impact of ECPs and suspect that employment numbers may be exaggerated. On any program that seeks to create jobs, there will be an incentive for implementers to inflate the jobs they claim are being created. Without a rigorous M&E system in place with proper checks and balances, implementers may indeed inflate the jobs and sales they attribute to their project.

Yet ECPs are well suited for rigorous M&E systems, in part, because unlike most development programs, ECPs can link step by step and in causal fashion program activities with final results. The best ECPs put in place serious M&E systems that, first, discourage activities that help firms do what they would have done anyway and, second, only count jobs actually facilitated by program assistance. Such M&E systems are invaluable management tools (which all development programs strive for, but often do not achieve) and include the following attributes:

- *Confirm the veracity, causality, and additionality of jobs.* A strong M&E system confirms the veracity of jobs data (i.e., that a firm actually created jobs) to ensure the jobs are not fabricated or double-counted. In addition, a good M&E system verifies that jobs are directly linked to program activities (causality) and would not have been created in the absence of the program (additionality).
- *Establish "checks and balances".* The best ECPs make the M&E team independent from the business advisors charged with maximizing job creation. M&E staff must be accountable for data validity and empowered to question every job claimed.
- *Estimate program cost effectiveness.* The best ECPs encourage program staff to maximize program resources by selecting activities that are cost effective. For example, some ECPs select activities only if they are expected to yield a 5-to-1 (or similar) increase in firm sales for every dollar of program funding invested. Using this approach, the M&E team independently reviews partnership agreements at the beginning, middle, and end of the program to ensure that a 5-to-1 return is realized and, if not, understand why not.

B. LAUNCHING AN ENTERPRISE COMPETITIVENESS PROGRAM

B1. PLANNING: RFP DESIGN AND THE PROCUREMENT PROCESS

The success of the best ECPs starts at the planning stages. The best ECPs search for the bottlenecks their client firms face and then design customized solutions to attack those binding constraints; they do not try to apply pre-packaged solutions, such as financial management training, unless those solutions meet the specific constraints preventing a firm from reaching new markets, increasing sales, and creating jobs. When developing an RFP and conducting a procurement, USAID must not encourage offerors to deviate from the approach outlined in this document. More specifically, USAID would be wise to:

1. *Encourage offerors to work with those firms that present the greatest potential for job growth.* The most effective ECPs are those that select firms based on market opportunities and the cost-effectiveness of possible activities — i.e., by how much can they increase sales and jobs, and at what cost? At the RFP stage, USAID should avoid restricting client firms by size (see box) or sector. Instead, USAID should emphasize the importance of selecting firms based only on growth potential, taking into account the desirability of working with many firms in each sector to avoid perceptions of favoritism or monopoly creation.

> **To SME or not to SME?**
>
> Many countries possess economies dominated (in number) by SMEs. Does this mean that USAID should support only SMEs? No. The primary source of demand for SMEs, particularly those in rural areas, is typically found in large firms. As such, it makes no sense to restrict the ECP's ability to engage and support medium and large businesses. See Myth #3 above for more detail.

2. *Discourage too much specificity in offerors' technical approaches.* At the proposal stage, potential USAID implementers often feel pressure to declare confidently whom they are going to help and how they are going to do it, with as much detail as possible. As argued throughout this document, the bottlenecks preventing job growth are more often than not firm-specific and cannot be determined at the proposal stage. To acknowledge this fact, USAID should discourage offerors from proposing specific activities that will box them in during implementation. A better way to gauge the quality of their technical approaches is to ask them to react to one or more illustrative cases. A sample scope of work is in Annex A.

3. *Limit the number of pages allotted to the technical approach.* The longer the technical approach, the more pressure offerors will feel to add counter-productive specificity to their proposed approaches and activities. As such, USAID should limit the number of pages allotted to the technical approach section to no more than 10 pages. This page limit should not prevent offerors from demonstrating their understanding of the enterprise competitiveness approach and how it can be applied successfully in the relevant country (by responding to a case study, as discussed in the previous paragraph).

4. *Ensure results frameworks, logical frameworks, or causal models do not reward offerors that bring pre-identified solutions.* Results frameworks are a valuable tool for illustrating the development hypotheses and causal linkages underlying a program. However, when too specific, they can encourage offerors to make assumptions prematurely about the binding constraints facing future clients. Exhibit 4 below outlines tips for ECP results frameworks. The same guidance applies to logical frameworks and causal models.

Exhibit 4. Tips for RFPs and Results Frameworks

Allow as much flexibility as possible. Programs are often designed too rigidly during the proposal/start-up phase, before the program team knows what the demand actually is for their partner firms' goods and services and what the key constraints to meeting that demand actually are. Our research suggests it would behoove USAID and its implementing partners to fight the inclination to define firm-level growth constraints, proposed activities, and target sectors/value chains in detail before they have actually developed working relationships with client firms.

Keep results frameworks streamlined. The more detailed a results framework becomes, the more likely program activities will be written in stone prematurely. For example, if a results framework includes "Access to Finance Increased" as a PIR, the implementer will focus on access to finance regardless of whether financial management is the top problem of client firms and such activities meet the 5-to-1 cost effectiveness rule (see Section B2). It is best to identify problems before defining solutions. As such, the more flexibility built into RFPs and results frameworks, the better.

Elevate the importance of results and accountability. The lack of specificity in the results framework may make some people uncomfortable. Rather than dictate specific activities and approaches, however, it is better to focus on jobs, ensure they are measured in a way that is clearly defined and transparent, and then hold implementers accountable for bringing those results about. This will incentivize ECPs to find the specific problems facing each firm and then design customized solutions to remove those constraints and generate jobs.

5. *Create incentives for optimal performance.* Unlike most other development programs, ECPs can be structured so that (1) the ECP is able to track jobs created as a consequence of program activities and (2) the ECP program leadership team can hold its business advisors accountable for the performance of their "portfolios" of client firms. This allows USAID and the program leadership to hold people accountable for results without dictating the best method for achieving results — a perfect way to foster innovation in development. To maximize impact, USAID's contracting officers should allow offerors to propose and disburse incentive bonuses to high performing business advisors. Under such a scheme, the business advisors receive bonuses as a function of the degree to which the client sales and jobs generated as a result of their work exceed targets established at the beginning of each year. A modest performance bonus is often a tiny fraction of the overall ECP budget, but can result in a substantial difference in program impact.

6. *Include two components in the RFP design: (1) transactional firm-level assistance and (2) assistance to address systemic issues, such as policy and institutional reform.* To maximize results, ECPs should start by focusing solely on firm-specific, transactional issues preventing increased sales and jobs. Over time, the implementer will likely identify systemic barriers (policy or institutional) to sales and employment growth. By including these two

components, USAID gives the implementer the flexibility to "search" for the best solutions to binding problems and to focus resources on the most cost-effective activities. One important note: These two components should not include contract line item numbers (CLINs) that would force the implementer to focus resources arbitrarily on systemic issues, regardless of need and opportunity. A sample SOW is in Annex A.

7. *Make the program as long as possible.* One of the strongest conclusions from AMEG's research about program design is the importance of a long timeframe for project implementation. Almost universally, the best USAID ECPs had five or more years to build trust with clients, refine their approaches, and, ultimately, generate impressive numbers of jobs[4]. The cost effectiveness of ECPs also tends to increase in later years.

B2. PROJECT LAUNCH

After USAID designs an RFP and completes a procurement following the guidance above, USAID should give its implementing partner a great deal of flexibility, while holding it accountable for achieving specific, tangible results and impact. The following actions are key to the ECP's success immediately after USAID has selected an implementer (although some of these actions are relevant for the procurement process as well).

Recruit a team of problem solvers who can adapt to the needs of firms. Across all ECPs, the impact achieved is closely tied to the quality of the *business advisors* tasked with identifying and managing client relationships and overseeing the design and implementation of assistance packages. In Tunisia, BRCP seeks business advisors with 10 years or more of business experience with international exposure. In Bangladesh, the JOBS team relied heavily on recent MBA graduates. While there is some flexibility in the profile of these individuals, the best ECPs select business advisors that reflect the flexibility of the approach. Although it is tempting to hire specialists, specialists tend to view the world too much through the prism of their own disciplines. Bankers tend to see clients' problems as financial, agronomists see them as agronomic, macroeconomists see them as rooted in policies or institutions, etc. As such, the best ECPs tend to hire generalists, or people with the ability to react like generalists. These advisors have common traits as described by the USAID Caribbean Open Trade Support Program:

- *Business sense and experience.* The best business advisors bring hands-on business experience and can put themselves in the shoes of a businessperson. They can apply this experience to help diagnose problems and design solutions.

- *Analytical and problem-solving skills.* Business advisors must be able to thrive in an environment where the ECP does not prescribe specifically what it will do with each individual client beforehand, but rather adapts to the specific binding constraints and designs tailored, cost-effective solutions. Business advisors must be able to quantify the likely impact of program activities and adjust to unexpected problems as they arise.

[4] Tunisia BRCP has achieved impressive results quicker than many other programs, but it is worth noting that BRCP capitalized on momentum from a previous USAID project.

- *People skills and a strong network*. To be effective, the business advisors must be able to build trusting relationships with businesspeople — including those who have a tendency to distrust outsiders — and facilitate trusting relationships between firms along the market chain. In addition, a strong professional network helps the ECP disseminate information about the program and identify new opportunities.

- *Integrity and trustworthiness*. The business advisors must be honest and demonstrate integrity. This is key to gaining the confidence of clients to overcome mistrust and their natural reluctance to enter into difficult business transactions with potentially high returns on investment. The role that business advisors play as honest brokers is even more important in countries with weak rule of law and contract enforcement.

Introduce the team to the "buyer-led" approach in an "induction workshop". Even the most experienced and intelligent business advisors struggle to adhere to the "demand-pull" approach used so successfully in Tunisia, Peru, Kosovo, and many other countries. A workshop introduces staff members, particularly business advisors, to the approach's *demand-driven* methodology — a mantra repeated continuously during the project — and provides details about the policies and procedures they will use to put the approach into practice. (Riordan 2011, p. 300) This multi-day workshop focuses on four key topics: (1) assessing clients by identifying buyers and bottlenecks, (2) designing partnership agreements with clients, (3) implementing partnership agreements, and (4) tracking and sharing results. These policies and procedures will need to be reiterated and revisited throughout the early stages of the program. Each topic is discussed in detail in Sections C and D below.

Organize project activities: geographic corridors are better than sectors. A critical decision point in the planning process is how to focus the ECP's finite resources so they achieve maximum impact. The key challenge is maintaining as much flexibility as possible, without spreading the team so thin that activities become too shallow to achieve meaningful results. Many ECPs conduct studies and then pre-select clusters, industries, sectors, or products. As argued in Myth #1 above, the research team believes that this approach can reduce the program's impact. Instead, ECPs should organize activities geographically by selecting geographic corridors. This approach has the following benefits:

Focus on Geography, not Sector

"Economic corridors are spaces in which economic activity naturally takes place, that is, spaces that link rural areas to intermediate cities, and intermediate cities, in turn, to the demands of domestic and international markets beyond. . . Normally, economic corridors do not conform to political boundaries, but correlate closely with roads and watersheds." (Riordan 2011, p. 265)

- *To have impact, you must have trust, and to have trust, you must have physical presence.* Business owners are rarely willing to make changes to their businesses unless they trust the persons providing recommendations. Depending on the culture and the business owner, it can take months to develop the trust required to build smooth working relationships with clients. By focusing its work in geographic corridors, the ECP can place its business advisors in strategic locations — ideally requiring a maximum of two hours of travel time[5] — that allow the frequent, sometimes daily face time needed to build strong, trusting relationships.

- *Increase access to markets for the poor.* "Economic corridors are especially suitable for programs oriented toward reducing poverty. Why? Because in very many developing countries, the main reason that poor people are poor is their lack of access to markets. . . . The appeal of the economic corridor construct for anti-poverty programs is precisely that it forces practitioners to think through why the poor are not connected to markets and how they can remedy that situation." (Riordan 2011, p. 265)

- *Economic corridors support the flexible, demand-driven approach used by the most effective ECPs.* The opportunities for ECPs to help businesses increase their sales and jobs are impossible to predict at the beginning of the project. Using economic corridors, the ECP can identify intermediate (secondary/tertiary) or large cities that act as hubs of commercial activity and then link businesses in those connector cities with SMEs in areas with higher concentrations of poverty. In Armenia, Paraguay, and Peru, implementers were unable to set up offices in as many locations as they would have liked and, therefore, used two criteria to decide where to operate: geographic concentrations of poverty and the presence of economic potential (specifically in terms of generating opportunities for the poor).[6]

Define objectives and a programmatic framework to unify the team and keep everyone focused. USAID and its implementing partners should fight the inclination to include too many objectives, activities, and indicators. There needs to be a coherent operational framework with a clear vision for all to rally around. Rather than trying to do everything, the most effective ECPs have a clear understanding of what they are trying to accomplish based on definable, measureable results, most often increased sales and jobs.

Don't just say it: Use and integrate M&E into operations to bring discipline to technical activities. M&E systems should influence decisions from the beginning of the project to instill discipline and a focus on results. Before making the final decision to work with a client, business advisors should have already answered questions such as, "How many jobs do we expect to generate from this activity and at what cost?" (See Annex C for more examples of questions the M&E team should ask the business advisors before they move forward with project assistance.) To ensure M&E is an asset to the ECP, USAID and the implementer must limit the number of impact indicators as much as possible and structure the M&E team to be unbiased and to impose checks and balances on the technical team.

Set realistic targets for a limited number of indicators that are easy to track and verify. The challenge with any project is setting targets that are not too easy to achieve, but also not so far out of reach that they lose meaning shortly after activities start. There is no exact science to

[5] Several MENA countries — the West Bank being an extreme example — are so small that business advisors can reach most, if not all, towns in less than two hours. In these countries, it may not be necessary to organize the ECP by economic corridors.

[6] Examples of how programs have applied these criteria can be found on pp.264-271 of "We Do Know How: A Buyer-led Approach to Creating Jobs for the Poor."

setting targets, but the ECP should leverage available information. To start, the ECP should look to previous programs either in country or in comparable countries over the past decade. Then, the project should adjust expectations based on such factors as (1) the stability of the country, (2) the number of offices requiring set up and management, (3) the time horizon of the ECP, and (4) existing infrastructure and market access. Targets should be reviewed annually to ensure they remain relevant and teams are incentivized to perform at the highest level possible (with performance bonuses, as recommended in Section B1). The three most important targets are:

- *Sales*. As discussed in Section A2, businesses normally will not create jobs without increases in sales. One can expect client sales facilitated by the ECP to grow at an increasing rate from year to year. As momentum builds, the cost effectiveness of activities increases, resulting in more sales per dollar spent by the ECP.

- *Jobs*. The ultimate goal of ECPs is to create jobs, so this is an obvious and important indicator[7]. One word of wisdom: Over an extended time horizon, the ratio of sales to jobs generated by the ECP may increase. This makes economic sense: As businesses become more efficient and labor demand increases along target geographic corridors, the marginal productivity of labor rises, as does the wage rate. As a result, firms need to generate more sales to create a job.

- *Sales/cost or jobs/cost ratio*. By setting this target at the beginning, USAID and the implementer make themselves accountable for the cost-effectiveness of program activities. Most ECPs have used sales/cost ratios on the grounds that jobs are harder to project beforehand. That said, the experience of BRCP suggests that in Tunisia, at least, using jobs/cost ratios can work as well.

Hire the right M&E team. To operate an M&E program, the ECP M&E staff should be ready to get their hands dirty in the field, not simply sit in the project's headquarters inputting data. Rather than hiring traditional development M&E experts, experience suggests ECPs should hire people with financial analysis expertise. These experts must have the skill set and confidence to evaluate a business's sales and jobs performance, asking hard questions when reported data seem suspicious or the impact of ECP support activities is questionable.

C. IMPLEMENTING AN ENTERPRISE COMPETITIVENESS PROGRAM

C1. IDENTIFYING AND SELECTING FIRMS FOR PROJECT SUPPORT

Spread awareness of available assistance and identify "connector firms" that would benefit from project assistance. The more choices an ECP has in terms of firms to support, the more effective it will be. Initially, businesspeople will likely be skeptical of such a program but, as successes are achieved and word of the ECP spreads, businesspeople will likely show more

[7] It is essential that ECPs count only jobs that they can verify and attribute to program activities. This can include jobs created at firms lower in the supply chain that provide inputs required for a connector firm to fill new orders. See Section D for more information.

interest in ECP support and services. Initially, it is important to undertake a thoughtful and strategic outreach campaign to ensure that a diverse group of companies are aware of the ECP's services. This process should start on the demand side by identifying "connector" firms that service end-markets (usually product markets)[8].

- *Chambers of commerce and business associations.* Chambers of commerce and business associations provide a straightforward way to access large networks of business owners. Business advisors should provide presentations to disseminate information to these groups about the ECP's services. These groups can also help the ECP identify large connector firms with the potential to increase demand for SME goods and services.

- *Professional networks of business advisors.* "Effective business advisors do not spend a lot of time in their offices. Most of their time they are out, scouring for business opportunities wherever they can find them — and once they have found them, keeping at it to ensure the deals close." (Riordan 2011, p. 334) Business advisors should leverage their professional networks and build out those networks.

- *Public outreach campaign.* A public outreach campaign— using, as appropriate, newspaper, radio, and social media advertisements — will ensure a diverse group of potential client firms is aware of program assistance, including those owned by women or other disadvantaged groups. However, public outreach campaigns are most effective after the ECP has success stories to share; potential clients are often skeptical of donor programs, and only change their tune when they know their peers used ECP assistance to increase sales.

Set a criterion for selecting firms based on potential to increase sales and create jobs. The selection process is crucial for the success of an ECP. The key is to make the process as efficient as possible, while directing resources where they will have the greatest "bang for the buck". This may require the ECP to work with larger firms (see the discussion under Myth #3 above), which is fine as long as it generates as many jobs as cost effectively as possible. Many programs establish long and complicated lists of criteria to determine firms to work with. Doing so can cause significant delays as the team attempts to look for the perfect business or sector. Generally, ECPs should focus their firm selection processes on real market opportunities and cost-effective solutions where the ECP can add the most value.

What about a Rule for Job Creation?

One might wonder whether it makes more sense to set employment ratios rather than a 5-to-1 sales ratio. AMEG research and experience suggests that it is more difficult to forecast the employment impact of new business. However, BRCP uses an employment ratio to guide its client selection process. BRCP works only with client firms that they expect to create jobs at a direct cost to the program (not counting fixed costs and overhead) of no more than $500 USD per job. As long as the ECP can forecast job increases accurately, an employment ratio would work similarly to the 5-to-1 rule.

[8] An example of a "connector firm" could be an olive oil processor. This firm is a "connector" because it exports to international buyers, but also works with olive farmers and other input suppliers. The firm connects end-market demand with the suppliers, allowing an ECP to design assistance that is truly demand driven.

The 5-to-1 rule. Several ECPs, although none in MENA, have used the "5-to-1" rule to maximize the cost effectiveness of program activities. This simple selection technique forces business advisors (1) to ask beforehand whether program activities will yield an increase in sales at least 5 times greater than the ECP's investment of program resources and (2) to confirm that those sales would not have occurred in the absence of the ECP. This approach is beneficial for many reasons. The 5-to-1 rule instills discipline into the team and makes sure everyone is striving for cost-effective solutions. It also helps the team say "no" to some companies that may have amiable business owners, but not possess the growth potential to warrant project assistance. By focusing on cost effectiveness, it encourages local solutions and selective use of expatriate assistance. As a rule it is best to "go local," using local consultants and solutions first.

Projects in different countries have modified the 5-to-1 rule. In the former Soviet Union, for example, ECPs have set lower cost-effectiveness ratios due to the challenges of stimulating entrepreneurship in former Communist states. In the Middle East, it is wise to take into consideration the stability of the country — conflict and physical insecurity can make it more difficult to do business, thus reducing the expected cost-effectiveness of ECP activities. However, many MENA countries have strong entrepreneurial cultures so a 5-to-1 ratio would seem viable in many places: Tunisia, Lebanon, Morocco, Egypt, etc.

The 5-to-1 rule (or BRCP's $500-to-1 rule, see box on previous page) rule is attractive because of its simplicity, the discipline it invokes among ECP decision makers, and the fact that it meshes well with the following, more general best practices for selecting client firms.

1. *Identify specific buyers and specific constraints.* The best ECPs, including Tunisia BRCP, select firms based on their specific opportunities to increase sales and generate employment. The most impactful programs identify specific buyers — with first and last names — and then determine the ECP's ability to help a firm meet the buyer's needs (see box).

2. *Create a portfolio of many different kinds of activities.* The best approach is for business advisors to pursue a diverse portfolio of clients, similar to a stock investment strategy. This strategy recognizes that not all firms and sectors are going to have the same sales and jobs effects. Diversification criteria should include: probability of success, growth time horizon, potential for involvement of women, and geography.

3. *Avoid helping to create monopolies.* It is important that ECPs not support the creation of monopolies, which would be counter-productive to the goal of creating more competitive economies that benefit employers, employees, and consumers. To counteract this tendency,

Make Sure You Attack the Right Problem

When BRCP asks its Tunisian clients to identify their top constraints, they often indicate that lack of access to finance is number one. However, when BRCP sits down with them to do a more in-depth diagnosis, it finds that other factors are often much more important, such as inability to meet European standards, poor quality control, and weak human resources management. That is why the best ECPs make sure their assistance packages attack the constraints that really are binding — preventing increased sales and jobs.

the ECP should work with as many firms as possible in a sector that satisfy the 5 to 1 criterion.

4. *Cost-sharing with minimal subsidies.* Cost sharing arrangements with a client firm leverage program resources and ensure the business owner has a vested interest in the activity's ultimate success. More than that, the higher the client's contribution, the more cost-effective the ECP's support. It is important, however, to ensure that the project is not funding an activity or investment that the firm would have undertaken regardless of the project's presence.

5. *Do not support efficiency-enhancing activities that do not directly bolster sales.* There is little development value in supporting a firm to increase the efficiency of its operations if it does not directly lead to new sales. In fact, such support could result in a decrease in employment — not any ECP's intended outcome.

C2. DESIGNING AND DELIVERING ASSISTANCE

Design assistance packages and formalize partnerships with client firms. Once a program has set up offices and hired and inducted staff, the ECP team is ready to formalize arrangements with client firms and design assistance plans to address each firm's binding constraints. The BRCP team notes that its success depends on joint ownership of its partnership agreements: ownership among the client firm, third-party consultants (if appropriate), and the program itself. Ownership starts with a Partnership Agreement, Client Growth Plan, or similar document that acts as a contract between the ECP and the client firm. These agreements have many different names, but typically include the following:

- Baseline data indicating sales and jobs of the firm over the previous 12 month period
- A brief explanation of the context: sector trends, competitors, current market share for the client, specific market opportunities, etc.
- The specific constraints preventing the firm from increasing sales and jobs and proposed solutions for addressing those constraints
- The role and commitment of the firm, the ECP, and any third party organizations or consultants to address those constraints, including any cost-sharing arrangements and M&E data sharing
- The expected results, including anticipated increases in sales and jobs
- A timeline for implementation of the agreement, including opportunities to evaluate progress and terminate the agreement if results are not being realized
- Legal commitments regarding confidentiality, etc.

The development of a Partnership Agreement is vital because it formalizes collaboration between the ECP and its client. It also highlights the key role of M&E. After each agreement is drafted, the ECP M&E team should review the document to ensure the development logic underlying the activity makes sense, the expected increases in sales and jobs are reasonable, and that the client would not undertake the activity without program support.

Cost-sharing assistance with partner firms. Generally, it is a bad idea to provide technical assistance free of charge to firms. If the client firms have no "skin in the game", then they will have less ownership of the problem-solving activity. Cost sharing has the following important benefits:

1. *Promotes ownership.* When a client invests money, time, and resources to address a growth constraint, the business owners will have much more ownership of the change. This helps align incentives and maximize the ECP's impact.

2. *Helps client firms hold ECP accountable.* With a cost-sharing arrangement in place, the business owner will be more inclined to provide feedback to the ECP and demand that the services provided meet the specific requirements of the business. In fact, Tunisia BRCP allows client firms to select their assistance providers (after they are vetted by the program).

3. *Promotes cost effectiveness.* Business owners want to use their resources wisely and, with a cost sharing arrangement, will only request assistance that they believe will yield a positive net return.

In addition, if a firm is unwilling to work with the ECP in the absence of fully subsidized assistance, then this is probably a signal that the ECP would be better off focusing its resources elsewhere. Large firms should expect to pay a greater cost-share than SMEs and, as time goes on, client firms should pay higher proportions.

C3. MANAGEMENT STRUCTURE AND STRATEGY

Select management structure for delivering assistance to firms: directly or through subcontractors. The best ECPs employ one of the following two approaches to managing client relationships and delivering problem-solving assistance to client firms.

Third-party subcontractors. On Peru PRA, the implementer hired third-party subcontractors to operate its Economic Service Centers. In addition to building local capacity, a key benefit of this approach is that USAID rules and regulations allow performance bonuses for business managers hired by subcontractors. In doing so, an ECP can align the incentives that drive its advisors with those of its clients, thereby focusing everybody's attention squarely on expanding sales and jobs of client firms. Even a relatively small bonus (particularly in terms of the ECP's overall budget) can create a significant boost to program performance. Also, the implementer can often leverage the existing geographic presence

Benefits of Outsourcing Business Support Activities

1. Local partners can often find the best people, particularly business people who are not traditional development experts.

2. On USAID programs, performance bonuses can be paid to subcontractor personnel.

3. After local subcontractors see the impact of sound ECP activities, they often adopt the principles and approaches in their other activities.

of its partners. However, this model can raise management challenges and, as such, it is critical that subcontractor staff report directly to the central project office of the prime contractor.

Directly by program staff with specialized assistance by local consultants. The delivery model used by some other ECPs, including Tunisia BRCP, includes business advisors that are employed directly by the prime contractor or international subcontractors. As in the option above, these business managers hire the specialized expertise of short-term experts or local consulting firms, as necessary, to address the binding constraints of partner firms. By leveraging local consulting firms, this model also helps bolster local capacity, but in a more limited way than the subcontracting model. In addition, administratively, this model is easier to launch. A big drawback is that international implementers tend to have strong networks in the development community and weak networks in the business community. Programs that use local subcontractors can use a competitive process to identify the most talented individuals in the country. This filtering process tends to yield the most talented business advisors.

The ideal background for a chief of party or team leader, and skills and types of experience needed on the program team. It is impossible to define the exact skills, experience, and traits needed to implement an ECP successfully, but the following traits and characteristics tend to define the most successful ECP staff members in leadership and key technical positions — in MENA and across the world.

> AMEG's research suggests that it helps if chiefs of party have direct private-sector business experience, but the best chiefs of party also have USAID development experience, which helps them focus on the ultimate goal of job creation/poverty reduction and effectively navigate rules and regulations of a contract or grant.

- *Chief of party/team leader/program director.* This person oversees all aspects of the ECP. More than anything, the best chiefs of party have the discipline to keep the team focused on demand-driven opportunities and the ability to motivate the team around a limited number of operational objectives. Candidates with no experience providing direct support to businesses can be successful, but, as with business advisors, it is important not to select chiefs of party inclined to push their own areas of expertise.

- *Business advisors.* Business advisors are the face of the program and the ultimate key to its success. They should be located in offices where they can visit all of their clients easily and in no more than two hours. As described in more detail in Section B1, the best business advisors tend to be generalists who understand business and know how to develop creative solutions to a variety of growth constraints. The box at right summarizes the traits of the best business advisors. If the program has been running for at least a year, and the leadership team knows that there is sustained demand across client enterprises for a specific skill set,

> **The Traits of Good Business Advisors**
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> Day in and day out, good business advisors take the meaning of "demand-driven" seriously, exercise discipline in selecting what clients and transactions to support, work collegially with clients in a way that builds trust, focus single-mindedly on solving specific binding market chain problems, and follow through to ensure that promising opportunities in fact translate into results. The advisors may not always succeed, but not for want of trying.

then it may be wise to hire subject-area experts. However, all ECPs should resist the temptation to do so at the outset.

- *M&E experts.* Traditional development M&E experts tend not to be the best fit for ECPs. The best ECPs do not use M&E as simply an administrative support function for USAID reporting; nor do they develop complicated surveys or indices. Instead, the M&E team spends much of its time in the field, evaluating and questioning business advisors' proposed partnership agreements and verifying the jobs business advisors attribute to program activities. As such, the best M&E experts tend to have financial analysis experience.

What is the ideal organizational structure for this type of program? At a minimum, an ECP will have an operations unit, an M&E unit, and a team of business advisors, who are often located in field offices, particularly in large countries. The most important principles for ECP organizational structures include:

- *Discourage "stove-piping".* The more integrated the organizational structure, the better. As discussed throughout this document, the ECPs' most important work takes place between business advisors and client firms. The M&E team provides important checks and balances to ensure business advisors use resources wisely to maximize impact and client firms are honest in their forecasting and reporting. Otherwise, the organizational structure should be as streamlined as possible. This does not imply that ECPs should ignore gender and environmental concerns, for example. Far from it. Experience suggests, however, that it is much more effective to mainstream gender, environment, and other concerns into project activities and management than to treat them separately.

- *Limit the number of long-term positions for subject matter experts.* In general, do not create positions for subject-matter experts, regardless of whether they are expatriate or local professionals, unless you are 100 percent sure there will be sustained demand for those positions throughout the life of the project. When in doubt, to maximize cost-effectiveness, it is best to rely on subcontractors or short-term experts.

- *Develop strategic portfolios of client firms.* The size of a business advisor's portfolio of client firms should be based on two key factors: (1) the number of active client firms relative to the time required to provide high-quality service to those clients; and (2) the geographic location of client firms. Generally, to build trust with client firms and maintain a high-level of service, business advisors should have "portfolios" of no more than 10 enterprises actively receiving assistance from the ECP at any one time. In addition, geographically clustered portfolios allow business advisors to visit clients more frequently while being more efficient with their travel schedules.

- *Integrate gender into program implementation.* Rather than hire a gender expert who is isolated from day-to-day activities, the best ECPs integrate gender into technical activities. They hire a diverse team of female and male project leaders and business advisors who are cognizant of gender concerns. Additionally, the best ECPs set targets for the number of women-owned businesses supported by the ECP and jobs for women created with ECP assistance. During the prospecting stage, ECPs should beat the networks to target as many women owned businesses as possible. And all things being equal (i.e., as long as companies meet the 5 to 1 rule), the ECP should choose companies that create jobs for women.

D. MONITORING IMPACT AND CREATING INCENTIVES FOR OPTIMAL PERFORMANCE

The most effective enterprise competitiveness programs use M&E systems that promote accountability — allowing USAID to hold the implementer accountable and allowing the implementer to hold its staff accountable. In doing so, these M&E systems create incentives for maximizing impact and help program teams coalesce around clearly defined development objectives. In turn, this helps an enterprise competitiveness program more clearly communicate its purpose to external stakeholders. Although M&E appears in Section D of this technical brief, it is as important as any other aspect of a successful ECP. A brief discussion about setting annual and life-of-project targets appears in Section B2.

> **Transparency Critical, Consistency Ideal**
>
> USAID competitiveness programs today do not use common indicator definitions and are often not transparent about how they collect job data and attribute those jobs to program activities. While not the primary objective of this guide, the research team strongly recommends that USAID standardize or, at a minimum, increase the transparency of employment M&E data on U.S. government assistance programs.

What indicators should a firm-level competitiveness program use to measure impact? Enterprise competitiveness programs should focus on a limited number of indicators, specifically those focused on *jobs* and *sales*. Additional impact indicators are discouraged. In addition, the indicators and targets should be selected in a way that incentivizes the implementer to work with many companies — important for diversifying the "impact risk" of the program and for identifying common policy and institutional constraints across client firms, should they exist.

- *Jobs*. The simplest indicator definition is: The number of full-time equivalent jobs (FTEs) created as a direct result of project assistance. FTEs are a standard methodology to measure employment. This indicator can include jobs created indirectly down the value chain, but only when those jobs can be clearly identified and attributed to ECP support. In addition, the M&E team should break out jobs for women and men to capture gender impact.

- *Sales*. This is simply the increase in annual sales from the baseline. By addressing the constraints to a specific transaction, the ECP can isolate the impact of its support from other exogenous market factors.

- *Cost per job*. This indicator requires no additional data collection, but helps the ECP focus on the cost effectiveness of its support. Program costs should be outlined in each partnership agreement to ensure cost effectiveness is considered from the outset.

Collecting data from partner firms. Collecting employment data from client firms is not always as easy as it seems. ECPs should aim to collect data that they can verify (i.e., the job actually exists and someone has filled it) and attribute to program activities. ECPs should collect baseline data at the point the program and a client firm enter into a formal partnership agreement. For Tunisia BRCP, this is when the program team and a client firm sign a Partnership Agreement. To confirm the validity of data, BRCP uses a three-tiered process for verifying job creation. First, partner firms are required to sign a document that verifies that jobs were created due to project assistance. Second, BRCP partner firms must provide details of the new jobs created, including the new hire's full name, identification information (e.g., national ID card number), hiring date, and contract type. Finally, BRCP conducts periodic "spot checks" of firms' human resources files (actual employment contracts, payroll records, attendance summaries) to ensure no documents are fabricated and that the person is indeed reporting to work. These checks include interviews of randomly chosen employees.

Ensuring improved business performance is a result of program assistance and not "cream-skimming". In the context of ECPs, cream-skimming refers to the possibility that program teams select client firms that would increase their sales and jobs without program assistance. With inadequate M&E systems in place, the program teams can claim that they "created" those jobs, even though the jobs would have been created anyway. This is a real risk and the best ECPs put checks and balances in place to ensure impact data is transparent about the ECP's "additionality" — i.e., why the M&E team believes the firm would not have made competitiveness enhancing improvements (and therefore create jobs) in the absence of the program. There will be instances in which a firm was already planning to make a change to its operations but, in the absence of the ECP, would not have realistically done anything for multiple years. In this instance, the AMEG team believes it is reasonable to attribute jobs created to the ECP. When in doubt, ECPs should be transparent about the jobs they claim to have created and why those jobs are attributable to the ECP.

E. REPLICATING AND ADAPTING THE ECP MODEL

Although this technical guide leans heavily on the experience of Tunisia BRCP, the model has proven to be successful in many countries across the developing world (see box), including MENA.[9] However, one might wonder if the model could be equally successful in other countries at different stages of development. This section outlines the conditions that are most appropriate for a firm-level competitiveness program and considerations for modifying the model, when necessary. The AMEG team believes that the model described in this guide could be replicated and scaled in several MENA countries where USAID has an active presence. The diagnostic checklist in Annex B aims to help

Countries where ECPs Have Worked
Azerbaijan
Armenia
Bolivia
Kosovo
Nigeria
Paraguay
Peru
Tunisia

[9] Dr. Jim Riordan's research paper titled "Determinants of the Cost-Effectiveness of Business Approaches to International Development in Generating Employment: A Cross-Country Analysis" demonstrates that the approach can work, albeit at different levels of cost-effectiveness, in a lot of different countries at varying stages of economic development.

USAID economic growth officers determine how to replicate the model in their countries.

What are the ideal economic conditions for a firm level competitiveness program? In the most basic sense, to be a candidate for a successful ECP, a country must possess firms that can expand existing or access new markets. In MENA, all countries are in a geographically advantageous location with the European Union close by and relatively easy access to shipping routes. However, security concerns can be a legitimate barrier to the success of an ECP. Business advisors must be able to visit client firms in person on a regular basis and, ideally, in less than two hours of travel time. Two-hour proximity is not a strict rule, but any major impediments to travel and client visits would threaten the ability of ECP business advisors to develop trust and provide high-quality service to clients and of M&E experts to collect and verify impact data.

How should the program be modified based on the stage of economic development in a given country? The demand-driven approach outlined in this document is designed to adjust to the specific context of the relevant country. However, there are certain challenges that can arise that USAID and its implementing partners should consider when setting employment targets:

- *Relatively unsophisticated businesses or a weak entrepreneurial spirit*. This point is obvious, but an ECP will be more successful when there are large numbers of client firms to support. In countries with more dynamic and larger private-sectors — such as Tunisia, Lebanon, and Egypt — ECPs will have an easier time identifying and working with clients than in countries with stagnant economies or little history of entrepreneurism (e.g., many countries in the Former Soviet Union).
- *Lack of strong candidates to serve in business advisor roles*. The most common challenge ECPs face is finding highly qualified business advisors, especially advisors comfortable with a bona fide demand-driven approach, and keeping those individuals in their roles. As mentioned in Section C3, successful business advisors bring varied experience and expertise. In Tunisia, BRCP selected business advisors with at least 10 years of business experience. It will be impossible to find people with such impressive credentials in all MENA countries and, if those individuals exist, the ECP will need to offer competitive compensation to prevent them from leaving for the private-sector.

What if other, systemic problems are preventing firms from increasing sales and jobs? As discussed in Myth #4 on page 11, the best ECPs attack binding constraints to growth wherever they exist — including policy and institutional constraints. However, it is best when there is an ECP interacting directly with a large number of client firms to (1) confirm that the target policy and institutional impediments will actually yield increases in sales and jobs and (2) mobilize client firms to advocate for necessary changes.

ANNEX A

MODEL SCOPE OF WORK

This annex includes a model scope of work for an enterprise competitiveness program (ECP) that reflects the best practices in this Technical Guide. The document is modeled after a typical Section C in a USAID RFP, often called project description, terms of reference, or performance work statement. It complements the recommendations in Section B1 (summarized below).

1. *Encourage offerors to work with firms that present the greatest potential for job growth*. The most effective ECPs select firms based on opportunities and the cost-effectiveness of activities — by how much can ECPs increase sales and jobs, and at what cost? In the RFP, USAID should avoid restricting client firms by size or sector.
2. *Discourage too much specificity in technical approaches*. At the proposal stage, potential implementers often feel pressure to declare confidently whom they are going to help and how they are going to do it, with as much detail as possible. USAID should discourage offerors from proposing specific activities that will box them in during implementation. A better way to evaluate technical approaches is to ask offerors to react to one or more illustrative cases.
3. *Limit the number of pages allotted to the technical approach*. The longer the technical approach, the more pressure offerors will feel to add counter-productive specificity to their proposed approaches and activities. USAID should limit the number of pages allotted to the technical approach to no more than 10 pages.
4. *Ensure results frameworks, logical frameworks, or causal models do not reward offerors that bring pre-identified solutions*. When too specific, results frameworks can encourage offerors to make assumptions about the constraints facing future clients. Exhibit 4 outlines tips for results/logical frameworks and causal models.
5. *Create incentives for optimal performance*. To maximize impact, USAID's contracting officers should allow offerors to propose and disburse incentive bonuses to high performing business advisors. A modest performance bonus is often a tiny fraction of the overall ECP budget, but can result in a substantial difference in program impact.
6. *Include two components in the RFP design: transactional and systemic*. To maximize results, ECPs should start by focusing solely on firm-specific, transactional issues preventing increased sales and jobs. Over time, the implementer will likely identify systemic barriers (policy or institutional) to sales and employment growth. By including these two components, USAID gives the implementer the flexibility to "search" for the best solutions to binding problems and to focus resources on the most cost-effective activities.
7. *Run the program as long as possible*. One of the strongest conclusions from AMEG's research about program design is that the longer the life of a program, the more results per dollar spent. In other words, the highest return on USAID's investment comes in the out years. Limiting a program to two or three years can be short-sighted.

GENERIC ENTERPRISE COMPETITIVENESS PROGRAM (GECP)

SAMPLE PROJECT DESCRIPTION/TERM OF REFERENCE

I. SUMMARY

I.1. Project Purpose

- Create new private sector jobs in Country X.

I.2. Project Overview

- GECP will facilitate the provision of problem-solving services to firms to enable them to expand their sales. The increases in sales will result in the creation of new jobs, which will increase the incomes of people currently unemployed, especially youth, contributing thereby to a growing, inclusive economy.

- GECP will apply the buyer-led approach. It will start with the market – operationally, buyers – and work backwards to help firms solve the binding constraints that stand in the way of their selling more.

- Most of the assistance will be transactional, that is, it will help firms take the actions required to attack their business problems as business problems. When the nature of the binding constraint is systemic – that is, it calls for policy or institutional change – GECP will work with the affected firms to address the constraint in question. It is anticipated that roughly X percent of support will be transactional and roughly X percent systemic.

- GECP will exercise discipline, supporting only those activities likely to bring about increases in client sales many multiples the cost of the support itself. It will support a broad portfolio of enterprises, including women-owned firms and firms engaged in economic activities with the potential to increase employment specifically for women. Not only will GECP apply environmental due diligence; when feasible, it will support firms engaging in green activities.

II. BACKGROUND

II.1. Statement of the Problem

- Describe Country X's unemployment problem(s).

II.2. Principal Constraints

- Enterprise-specific problems
    - Present several examples to illustrate the many different types of business problems that prevent firms in Country X from increasing their sales and hiring more people.
- Business environment problems
    - Describe the kinds of systemic problems – e.g., policy and institutional constraints – that prevent firms in Country X from increasing their sales and hiring more people.

III. OVERALL USAID RESPONSE

III.1. Relationship to CDCS

- Describe how GECP meshes with and supports the objectives in the Mission's Country Development Cooperation Strategy.

III.2. Linkages with Other Assistance

- Prior USAID and Other Donor Assistance
    - Describe how GECP relates to prior USAID and other donor assistance.
- Current and Planned USAID and Other Donor Assistance
    - Describe how GECP relates to current and planned USAID and other donor assistance.

III.3. Rationale for Application of Buyer-Led Approach

- Describe why the application of the buyer-led approach makes sense in Country X.

- For example, many development programs assume that the binding constraints to growth in a given sector are much the same for all firms in that sector. Practical experience suggests that is far from the case. Rather than facing a uniformity of constraints, firms typically face a vast heterogeneity of binding problems, even within a given sector. For that reason, a transactional focus – a hallmark of the buyer-led approach described in the overview of the technical approach below – is in order.

- See also the considerations outlined in Annex B of this Technical Guide.

IV. STATEMENT OF OBJECTIVES

IV.1. Development Logic/Theory of Change

- GECP's development logic is straightforward. Through its development assistance, USAID wants to help Country X bring about enhanced and inclusive economic growth. For such growth to occur, currently poor people will need to earn more income. For them to earn more income, they will need jobs. For more employment to come about, firms in the economy must grow — that is, they must sell more. And for firms to sell more, they will need to resolve the firm-specific binding constraints that prevent increased sales from taking place. Following this logic, GECP will focus on the removal of the key obstacles to the consummation of business transactions, which, it is hypothesized, will result not only in enhanced sales, but, in turn, an expansion of jobs, a boost in incomes, and a growing, increasingly inclusive Country X.

IV.2. Overview of Technical Approach

- GECP will take the mantra of demand-driven development seriously, helping SMEs identify potential buyers for their goods and services (when that is necessary) and then produce to those buyers' specifications. It will help SMEs solve production problems – that is, supply-side constraints – but only after they have tied down the demand side in specific terms. In short, GECP will start at the market – that is, buyers' orders – and help SMEs build on the incentives provided by those orders to tackle the major problems that get in the way of consummating sales. GECP will not help firms solve all their problems, but focus on those that are in fact the binding constraints to sales actually taking place.

- More specifically, GECP will take a market-chain approach, recognizing that a firm's binding constraints may not lie on the factory floor, but have to do with its buyers or its suppliers. The diagnosis of binding constraints will therefore look at the whole range of linkages between the buyer, the SME, and its suppliers. Although thorough, this approach differs from conventional value chain analysis in its comprehensiveness. Value chain analysis looks at the entire range of relationships among all firms in a sector, their buyers, their suppliers, and potential support organizations. Market chain analysis is much more direct and action-oriented, focusing in a disciplined way on the rapid removal of the transaction-specific constraints that stand most in the way of completing business deals.

- Although the technical quality of problem-solving assistance is important, experience in Country X and elsewhere suggests that the most important service provided by business development providers under development projects is the building of trust among parties with a predisposition not to work with each other. GECP will focus on breaking down such resistance by accompanying SME clients as they sell to new buyers and broaden the scope of their operations.

IV.3. Overview of Components

- **Component 1: Transactional Support**
    - To build trust with client firms, a development program must have physical contact with those firms. If Country X is a medium- to large-sized country geographically, GECP will establish physical presence in the economic corridors where it will work (see the discussion of economic corridors in Section B2 of the text of the Technical Guide). With those business promotion offices as a base, GECP will establish contact with a broad range of enterprises, diagnose with them their binding constraints to growth, develop with them strategies for addressing those constraints, and help the firms put the strategies into practice. In principle, the strategies can take on a multiplicity of forms – for example, finding new buyers, upgrading production techniques and quality control systems to meet the requirements of more demanding markets, improving management practices so firms can in fact grow, securing financing to expand operations, etc. GECP will not come with preconceived ideas of what the firms' binding constraints and corresponding solution strategies will be. Rather, it will tailor its solutions to the individuality of the problem it finds in each case.
    - Client firms will share the cost of the solutions they implement with project support. GECP will not underwrite the costs for them. The firms' share can include in-kind contributions as well as cash outlays.

- To boost the likelihood that its support will be cost-effective, GECP will apply a quantitative rule of thumb each time it partners with a client, assessing *beforehand* whether the project's support is likely to generate sales well in excess of the cost of the support itself. It may also follow BRCP's lead, using a cost-per-job cutoff as the operational criterion.

- To align the incentives of business advisors with the incentives of their clients, GECP will introduce a performance bonus system. Under the system, business advisors will receive bonuses as a function of the degree to which the client sales and jobs generated as a result of their work exceed targets established at the beginning of each year.

- **Component 2: Systemic Support**

  - To guide its policy and institutional reform work, GECP will look, not to studies, but to the intelligence gathered from its interactions with client firms to determine what issues to give priority to. When it turns out that the binding constraint to client firms' growth is systemic, GECP will work with them to come up with the best solution. If that solution is politically feasible and cost-effective, it will then move forward.

  - Lest this component become a solution looking for a problem, GECP will not establish a policy unit to address systemic issues. Rather, when binding systemic issues do emerge, it will marshal resources to assess whether moving ahead makes sense, and if it does, define how and act accordingly.

V. ILLUSTRATIVE ACTIVITIES

- Implementers will have the latitude and, indeed, will be expected to adjust the basic elements of the buyer-led approach to the reality of Country X. Indeed, it will fall largely to them to decide where to establish offices, what cost-sharing arrangements to propose, what quantitative rule of thumb to use to select clients, how to set up a performance bonus system, what overall management structure to establish, how to safeguard the autonomy of monitoring and evaluation, how to ensure that concern for gender translates into sales for women-owned firms and employment opportunities for women, what communications strategy it will adopt, etc. Creativity and innovation will be encouraged, but within the context of the approach's disciplined, problem-solving, results-oriented, market-driven framework. The illustrative activities below, therefore, are just that, not a straightjacket.

V.1. Component 1: Transactional Support

- In essence, two outputs are anticipated under this component:
    - Physical presence established with buyer-led approach operationally in place in each target economic corridor in Country X.
    - Problem-solving assistance provided to and implemented by client firms
- Possible activities to bring these outputs about include:
    - Getting started:
        - Inculcate a common, shared framework and vision among USAID and core implementation staff on the transactional approach to generating jobs
        - Formalize a decision criterion, using either sales or jobs as the key indicator, for sifting out cost-effective program actions from just "good" ones
        - Define the geographic coverage of the project and its business promotion offices
        - Put a conducive management and organizational structure in place
    - Setting up business promotion offices:
        - Select and, if appropriate, subcontract with the entities that will operate the offices
        - Select business advisors to staff the offices
        - Facilitate an induction workshop to inculcate a common project-wide implementation approach
        - Set office-specific targets and develop a performance incentive scheme
    - Selecting and working with clients:
        - Identify potential clients
        - Select clients to work with
        - Structure relationships with clients

- Tracking and sharing progress:
  - Make monitoring and evaluation a management tool
  - Communicate with the public, especially success stories

V.2. Component 2: Systemic Support

- In essence, two outputs are anticipated under this component:
  - Priority policy and institutional problems identified from the intelligence derived from clients receiving transactional assistance
  - Solutions to priority policy and institutional problems implemented successfully
- Possible activities to bring these outputs about include:
  - Define operational procedures to cull intelligence on policy and institutional reform priorities from disparate clients
  - Establish project priorities on which policy and institutional changes to support
  - Develop reform-specific plans for bringing about the desired changes

V.3. Case Studies

- The buyer-led approach recognizes explicitly that offerors will not understand firms' binding constraints until they actually engage with those firms. During the proposal stage, therefore, it is counterproductive for USAID to ask offerors to spell out the specific firm-specific support activities they will undertake.
- To give USAID confidence that offerors understand the peculiarities of Country X and can implement the buyer-led approach effectively there, it is wise to include in the Request for Proposal one or two case studies. The case studies would be fictitious but would exemplify the kinds of firms and the kinds of business problems an offeror would expect to encounter when it implements the project. In the RFP, USAID would ask offerors to propose solution strategies for the cases presented, relying on their knowledge of local conditions, price parameters, etc..
- An example of such a case study from a non-MENA country appears at the end of this

Annex.

VI. EXPECTED RESULTS, ILLUSTRATIVE INDICATORS, VERIFICATION, AND DISSEMINATION

VI.1. Expected Results

The results framework proposed for GECP is:

- Project Goal: Inclusive economic growth enhanced
- Project Purpose: New private sector jobs in Country X created
- Project Sub-Purpose: Sales of Country X enterprises expanded
- Project Outputs, Component 1:
    - Physical presence established with buyer-led approach operationally in place in X economic corridors in Country X
    - Problem-solving assistance provided to and implemented by client firms.
- Project Outputs, Component 2:
    - Priority policy and institutional problems identified from the intelligence derived from clients receiving transactional assistance
    - Solutions to priority policy and institutional problems implemented successfully.

N.B. It is tempting for USAID to ask offerors to put more flesh on the framework above, spelling out in their proposals the specific assistance they propose to provide to firms and the specific policies they propose to focus on. It is essential for USAID to resist that temptation. Again, it is unrealistic for offerors to say what specifically they will do until they commence implementation. At the proposal stage, it is premature – and dangerous – to tie things down tightly.

VI.2. Illustrative Indicators

The key indicators proposed for GECP are:

- Project Purpose: New private sector jobs in Country X created
    - Number of jobs created attributable to GECP program actions (FTEs)
    - Number of jobs created for women attributable to GECP program actions (FTEs)
- Project Sub-Purpose: Sales of Country X enterprises expanded
    - Value of sales of client firms attributable to GECP program actions ($)
    - Value of sales of women-owned client firms attributable to GECP program actions ($)
- Project Outputs, Component 1:
    - Physical presence established with buyer-led approach operationally in place in zz economic corridors in Country X
        - Business promotion offices established in zz economic corridors in Country X
    - Problem-solving assistance provided to and implemented by client firms
        - Number of client firms implementing GECP-supported solutions to binding constraints
        - Number of women-owned client firms implementing GECP-supported solutions to binding constraints
- Project Outputs, Component 2:
    - Priority policy and institutional problems identified from the intelligence derived from clients receiving transactional assistance
        - Priority policy and institutional problems identified
    - Solutions to priority policy and institutional problems implemented successfully
        - Priority policy and institutional changes implemented successfully

VI.3. Monitoring and Evaluation

- Under GECP, monitoring and evaluation will go well beyond collating and reporting results. It will exercise four other significant functions:

    - *Management tool.* As they verify jobs, sales, and other data, M&E personnel will flag implementation problems as they occur, allowing management to resolve them in essentially real time.

    - *Results verification.* Especially with a performance bonus scheme in effect, there will be a temptation to exaggerate job and sales results. M&E personnel will verify independently whether in fact they took place.

    - *Results causality.* In a similar vein, M&E personnel will verify that results obeyed the logic of the solution strategies mutually agreed upon. They will discard results that occurred for reasons unrelated to GECP program actions.

    - *Results additionality.* M&E will confirm that GECP added value, that is, that it did not help a client do what it would have done anyway.

- Experience in other countries suggests that the best people to carry out the functions indicated above are individuals with financial analysis or similar expertise. The qualifications of M&E personnel on GECP will therefore go beyond conventional M&E skills.

VI.4. Communications

- Business owners typically pay more attention to what they see their peers accomplishing than to the advice they receive from outside "experts." For that reason, GECP will give priority to sharing success stories with the business community at large as a way of interesting them in copying what others are doing and in working collaboratively with the project.

VII. OPERATING PARAMETERS

VII.1. Gender

- GECP will mainstream gender into its day-to day operations, hiring women advisors and setting targets both for number of women-owned firms supported and the number of jobs generated for women. USAID will hold implementers accountable for meeting those targets. Gender will not be a separate activity under the project, nor will the project focus on gender studies. Rather, GECP will come up with practical ways, in Country X, to reach women and generate employment for them.

VII.2. Environment

- Environmental Compliance
    - A categorical exclusion is recommended for activities under the project. That said, during implementation USAID will examine project activities for their impacts on the environment and, when necessary, put mitigation measures in place.
- Promotion of Green Activities
    - GECP will try to do good as well as avoid evil. As it builds its portfolio of client firms to partner with, it will search actively for firms producing goods and services that not only do not harm the environment but have a positive impact on it.

VII.3. Sustainability

- GECP will focus on the sustainability of the buyer-seller relationships forged during implementation.
- Experience worldwide, as well as economic theory, suggests the wisdom of *not* looking to the sustainability of business service providers as a program outcome.

VII.4. Budget

- GECP will run for X years (at least – see below). It is budgeted at $X million.

VII.5. Mode of Procurement

- USAID will engage the services of an implementing contractor through full and open procurement. Most likely the implementing contractor will subcontract in turn with local entities to run GECP's business promotion offices.

- In buyer-led programs, momentum tends to snowball and sales and jobs to grow exponentially. In the event that all goes well in the first X years, USAID reserves the option of extending the project beyond that.

Sample Case Study: Khulna Water in Banglaesh

Khulna Water processes and exports shrimp. It has been in business for more than two decades, but its sales have been stagnant for a number of years. Its plant is up to international standards and can process five metric tons of shrimp per day, but it operates at only 25 percent of capacity. The company has 80 permanent and 160 seasonal workers. It has buyers in the United States (2/3) and Europe (1/3), but its shrimp is low-quality, so they buy from Khulna Water at a low price. The combination of low prices and idle production capacity means that the company's profit margin is small, even in good years.

Khulna Water's biggest problem is lack of quality raw material — that is, shrimp. Discriminating — and high-paying — buyers require traceability, that is, the ability to track shrimp from farm to factory and ultimately to the consumer. The traders who supply Khulna Water buy shrimp wherever they can get it, and do not worry about traceability. The only way Khulna Water can guarantee traceability to its customers is by developing close-knit relationships directly with shrimp farmers, which is a labor-intensive proposition.

Khulna Water can process fin-fish in addition to shrimp, but it does not have a well established network of fin-fish suppliers. To make fin-fish a major portion of its business, it would also need to invest in special plastic boxes, which would be expensive.

Last year, it tried to solve its shrimp traceability problem by working directly with 350 shrimp farmers. All went well until the moment of delivery, when the shrimp farmers demanded payment immediately in cash. Even though Khulna Water had ready buyers, it did not have a purchase order in hand. As a result, the company could not obtain bank financing to pay its suppliers, so the shrimp farmers sold their product elsewhere at a lower price. This year, a Japanese client has expressed interest in buying high-quality shrimp, but has not yet given Khulna Water a firm commitment. Given its experience last year, the company is reluctant to invest time and energy in forging close relationships with suppliers only to have them sell to traders at the last moment. The financing problem aside, supplier loyalty is a major problem. In fact, many processors feel obliged to invest in schools in farmer communities to secure their allegiance.

Can the ECP in Bangladesh help this business? What actions would it make most sense for it to support? Can the program make a difference cost-effectively?

THIS CASE STUDY COMES FROM REAL LIFE, BUT THE NAMES AND FIGURES ARE FICTITIOUS. THE EXAMPLE IS FOR PEDAGOGICAL PURPOSES ONLY.

ANNEX B

DIAGNOSTIC QUESTIONNAIRE

AMEG's research suggests that the general ECP approach works in many different contexts spanning the globe. However, it is very problematic to implement in challenging conflict environments. In other countries, the ECP model will yield significant results but perhaps not at the same level of cost effectiveness as Tunisia BRCP and other buyer-led programs. In such instances, it is important to adjust expectations and set realistic, but still ambitious targets.

This annex presents a "diagnostic questionnaire" for determining whether the ECP model outlined in the technical guide will work in your country, whether you and your team are committed to the approach, and the degree to which you need to introduce modifications.

Stability. The best ECP business advisors spend the vast majority of their time out of the office — typically they are on the road building trust with clients and helping them solve problems. Is your country one that suffers from serious political turmoil, war/unrest, or infrastructure deficiencies? If so, an ECP might not be a good fit in your country or, at a minimum, you need to lower expectations from the outset. Specific questions to ask include:

1. Given the importance of personal trust, do security conditions prevent personal trust from developing between business advisors and clients?

2. Can the M&E team work effectively? Can they visit client enterprises to confirm the accuracy, causality, and additionality of ECP results?

3. Given the importance of cost-sharing to effective ECPs, is your country so economically tumultuous that entrepreneurs are unwilling to invest in their businesses or their supply chains? Are companies inclined to wait for subsidies from the government or donors?

Budget. If the country is relatively stable, the next key question is budgetary. Previous ECPs have been successful with relatively small budgets (In Year 1, BRCP had a burn rate of approximately $5 million). However, it is important to confirm that the budgetary resources available will support key elements of success:

1. Do you have enough budget for the key elements of this approach?

    a. A central office with a minimum of 10-12 people to manage the whole program (not including M&E).
    b. An M&E staff with 3 to 5 people.
    c. At least 2 business advisors in each field office with administrative support.

2. Are you able to maintain that staffing level for at least three years as an absolute minimum? Can you make a commitment to finance the program for 5+ years?

Philosophy. For the ECP model to be successful, it is important that USAID and its partners have a consistent philosophy towards program design and implementation. Before moving forward, you should ask yourself and your team the following:

1. Are you comfortable putting the programmatic emphasis squarely on sales and jobs?

2. Are you prepared to let the specific problems of individual companies determine what solutions to bring to bear? Put negatively, are you comfortable not predetermining the kinds of solutions that will make the most sense?

3. Are you comfortable managing for results, not inputs? Are you comfortable holding the implementer accountable much more for sales and jobs results than for individual activities? Are you prepared to take M&E very seriously and budget for it accordingly?

4. Are you comfortable pushing for the sustainability of buyer-seller relationships, not for the sustainability of the BDS organizations you support?

5. Are you willing to accept a simple cost-effectiveness methodology for selecting firms — either cost per job or a sales/cost ratio (such as the 5 to 1 rule)? Put negatively, are you comfortable not preselecting sectors or sizes of firms?

6. Since incentives drive the system, are you willing to work with the Contracting Officer to find a way to put in place an incentive-based payment scheme for business advisors?

Geography. There are several geographic concerns to consider when designing an ECP and determining the size of the budget.

1. Is the country so geographically large that you need to apply a geographic focus to accommodate the resources available for the program?

2. If not, is the country small enough that you can have only one office? Or do you need regional offices? (Rule of thumb: business advisors should not have to travel more than two hours to visit clients.)

3. In most developing countries, the most severe levels of poverty are concentrated outside capital cities. Do you want this program to focus on the capital city or focus on other areas of the country?

ANNEX C

CLIENT REVIEW CHECKLIST

This annex includes two sample questionnaires for the implementers of enterprise competitiveness programs to use when reviewing proposed Partnership Agreements.

Questionnaire 1. For ECPs that use *cost per job* as its criterion for selecting client firms

1. Who is the client?
2. Who is (are) the client's buyer(s)?
3. Is the bottleneck to increasing jobs clearly defined?
4. How real is the bottleneck? Is that what really is preventing jobs from growing?
5. Why can't the client remove the bottleneck itself? Why does it need our support? Is it already planning / doing something to remove the bottleneck?
6. What support is proposed?
7. How much are sales expected to increase as a result (details!)?
8. How much employment is expected to result (details!)?
9. Is there a clear link among the bottleneck, our support, and expected job increases?
10. How long will it be until jobs are expected to increase?
11. Over what period are jobs expected to increase?
12. Does the client keep adequate records to allow us to verify the jobs created in the specific product lines we propose to support?
13. Is cost-share clearly indicated? Quantified?
14. What is the direct cost to the ECP?
15. Is the average cost to the ECP per job created less than X (modify to the target set and relevant local currency)?
16. Are there any negative environmental consequences foreseen?

Questionnaire 2. For ECPs that use sales growth (e.g., the 5 to 1 rule) as its criterion for selecting client firms

1. Who is the client?
2. Who is (are) the client's buyers?
3. Is the bottleneck clearly defined?
4. How real is the bottleneck? Is that what is really preventing sales?
5. Why can't the client remove the bottleneck itself? Why does it need our support? Is it already planning / doing something to remove the bottleneck?
6. What support is proposed?
7. What is the expected increase in sales?
8. What are the sales increases based on (details!)?
9. How much employment is expected to result from the increased sales (details!)?
10. Is there a clear link among the bottleneck, our support, and expected sales increases?
11. How long will it be until sales are expected to increase?
12. Over what period are sales expected to increase?
13. What other business improvements is the client undertaking?
14. Does the client have the ability to break out the sales from the specific product lines that we propose to support?
15. Does the client have the means / resources to report sales results accurately every month? Does it need assistance in designing and implementing a simple system to ensure data accuracy and adhere to reporting expectations (quality and frequency)?
16. Is cost-share clearly indicated? Quantified?
17. What is the cost to the ECP?
18. Are there any negative environmental consequences foreseen?

ANNEX D

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